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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000379

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E.O. 12958: DECL: 03/24/2019  
TAGS: [PGOV](#) [EPET](#) [EINV](#) [TX](#) [CH](#) [IR](#)  
SUBJECT: TURKMENISTAN: STATE AGENCY DIRECTOR KAKAYEV  
EXPLAINS ONSHORE DEVELOPMENT STRATEGY

Classified By: Charge Richard Miles for reasons 1.4 (b) and (d).

11. (C) SUMMARY: The Director of the State Agency for the Management and Use of Hydrocarbons shared his thoughts on Turkmenistan's offshore and offshore development efforts, and explained the country's willingness to sign production sharing agreements (PSAs) with interested partner nations like China and Iran. These countries share some important political views regarding the development, production and export of Turkmenistan's natural gas wealth, making them ideal partners. Turkmenistan wants to develop its fields and export its gas in a more diversified way, but it doesn't want to invest its own money in the process. China and Iran, according to the Director, want to secure ever-larger quantities of hydrocarbons from countries they get along with, and are willing to pay for development and infrastructure to get it done. The question, however, is whether such partners will be willing to spend the money necessary, and whether they will be able to handle the danger and complexity of extracting gas in Turkmenistan. END SUMMARY.

12. (C) Ed Chow, a visiting scholar from the U.S.-based Center for Strategic and International Studies, met with State Agency for the Management and Use of Hydrocarbons Yagshygeldy Kakayev on March 18. Explaining a little about how the agency works, Kakayev said that currently the Agency is only managing PSA agreements, but with the August 2008 Hydrocarbons Law, it is empowered to engage in a wider variety of agreements. The process begins, he said, when President Berdimuhamedov issues a decree permitting the Agency to sign a contract with a company, then the Agency issues the contract and the necessary licenses. He confirmed that the agency's key responsibility is to manage the state's interest in a PSA, and also to ensure the implementation of applicable national regulations and the requirements of the agreement.

OFFSHORE LEFT TO COMPANIES LIKE PETRONAS ...

13. (C) Since his arrival into office, the President has only issued decrees to do business with foreign private companies offshore, Kakayev said. (NOTE: Only one offshore PSA has been signed since Berdimuhamedov came into office, with Buried Hill in December 2007. END NOTE.) He initially said the reason that only offshore agreements were being signed was that Turkmen Government energy enterprises lack expertise only in the area of offshore development. He noted that up to this point, offshore projects had been producing only oil, but next year the Malaysian company Petronas will begin producing natural gas.

14. (C) Petronas, he said, has the right to sell the gas it produces as it wishes, but for practical purposes related to existing infrastructure, the company plans to sell its gas at the coastal oil terminal to Turkmen Gas, where it can be sent into the state's gas transportation system. PSA partners have the right to construct their own pipelines and send their production portion wherever they like, he said. Kakayev noted that Petronas was expected to produce between two and 2.5 bcm of gas per year, and he anticipated that in about five years, the Petronas field would be producing around 10 bcm per year.

15. (C) Kakayev said that some 15 exploratory wells had been drilled on the Turkmen side of the Caspian since 1992, although others had been drilled during the Soviet era. He acknowledged that there were "many" prospect sites that have never been drilled. Nonetheless, Kakayev boasted that the

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Caspian was assessed to hold 12 billion tons of oil and 6 tcm of gas awaiting development. However, only two offshore blocks were undergoing development right now, and another three were undergoing exploratory work. Ten other blocks, he said, were being negotiated now. He noted that some 54 million tons in increased oil production will come from offshore projects to help meet the national development plan by 2030.

...BUT ONSHORE, WE PREFER POLITICAL PARTNERSHIPS

16. (C) Addressing an inquiry about the Chinese National Petroleum Corporation's onshore PSA near the Amu Darya, Kakayev said that in 3-4 years' time, CNPC would be producing about 13 bcm per year, which would feed the new Turkmenistan-China pipeline. He said that although it is a PSA, the majority of the gas that will enter the pipeline (17 bcm) will come from Turkmen Gas State Concern, and the remainder (13 bcm) is to come from CNPC's work. CNPC is building a 16 kilometer pipeline from the fields along the river bank it is working, and acknowledged that CNPC will get the "cost-recovered gas." The gas that CNPC will produce will have lots of sulfur that will have to be removed, he added.

17. (C) When asked about the recently-reported deal with the Iranian national company to develop a portion of the South Yoloten field, he admitted little direct knowledge about the deal, which he claimed was only in the "idea" stage, and "just a proposal." He speculated that Turkmen Gas State Concern was the main negotiating entity on the Turkmen side. (NOTE: Little is known about the late February 2009 agreement that Turkmen and Iranian officials signed, other than the notion that Iranian companies would participate in the development of South Yoloten and in return would be allowed to export the gas they produce, up to 10 bcm per year, to Iran. The deal also includes a provision for the Iranian side to build a pipeline connecting the field to existing Iranian gas infrastructure east of Mashhad. Since the Turkmen government issued few details of the agreement, it may only have been a preliminary framework agreement. END NOTE.)

18. (C) When asked why onshore development deals had been

signed with CNPC and with Iran, contrary to current Turkmen policy, Kakayev replied that these deals were signed at the highest levels and incorporated both political and economic interests on the part of all parties. China is convinced that with its own PSA and additional Turkmen production feeding the pipeline, the pipeline's construction will be economically viable, he said. The Chinese side is convinced of this to the extent that it is bearing all the costs and related risks of constructing the pipeline, which will stretch over 6,000 kilometers to connect Turkmenistan to existent Chinese infrastructure. Turkmenistan saw this as a good deal, he said, and made an exception. The pipeline is to be comprised of twin lines that will have a total capacity of 30 bcm per year, but building extra compressors could bring them to a total of 40 bcm per year. Kakayev acknowledged that China was already negotiating for a potential increase of supply into the future pipeline.

¶9. (C) Kakayev commented that international oil companies had explored the idea of a pipeline to China since 1994, but had determined that such a plan was economically unfeasible. In both China and Iran, Turkmenistan found that both of these partners share the political and economic will to build new pipelines. New pipelines to both of these partner countries, he said, fulfilled Turkmenistan's policy goal of

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diversification of pipelines, as will a TAPI (Turkmenistan-Afghanistan-Pakistan-India) pipeline or a line across the Caspian. Kakayev assessed that in the longer term, China may seek to purchase even more gas in the long term, as much as 150 bcm per year. He commented that if China were to join the Kyoto Protocol, it would need to import even larger quantities of natural gas to help cut its CO2 emissions. Further, he said that there was currently no legal restriction against foreign companies in Turkmenistan selling the gas they produce to China.

¶10. (C) COMMENT: Kakayev presented a very reasoned perspective on why Turkmenistan is willing to sign onshore PSAs with the Chinese and Iranian Governments. Clearly the Turkmen Government sees it as a win-win situation, since China and Iran are reportedly agreeing to fund the development of these fields, as well as the construction of new export pipelines. It remains to be seen, however, whether China or Iran will invest the billions of dollars needed to properly and safely develop these challenging onshore fields in order to get the kind of production results that they need--and Turkmenistan is hoping for. END COMMENT.  
MILES